

**Mason Public Schools
Mason, Michigan**

FINANCIAL STATEMENTS

June 30, 2006

Mason Public Schools
Mason, Michigan
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June 30, 2006

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Mason Public Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Mason Public Schools
Mason, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason Public Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mason Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mason Public Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2006 on our consideration of Mason Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mason Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 16, 2006

Mason Public Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

This section of Mason Public Schools District's (MPS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2006.

FINANCIAL HIGHLIGHTS

- The District's financial situation remained stable for the fifth year in a row. Total net assets decreased slightly to \$18.1 million over the course of the year.
- Total District revenues exceeded \$29.8 million with spending around \$29.9 million. Overall revenues for 2005-06 increased by 3.7% with total district expenses increased 5.7%.
- Enrollment decreased by 17 students from fall 2005 to fall 2006 bringing the student blended enrollment to 3,124. This represents a decrease of less than 1%.
- The general Capital Project fund has a balance of \$309,806 at June 30, 2006. The General Fund transferred \$174,000 to the Capital Project fund in 2006. The fund spent \$285,000 on capital needs in the District during 2005-06.
- The District's fund balances decreased from \$15.0 million at the end of fiscal year 2005 to about \$6.4 million at the end of fiscal year 2006. The decrease is due to the continuing capital project accounted for in the 2004 Capital Projects Fund as well as a planned decrease in General Fund fund balance.
- The General Fund's fund balance decreased by \$681,419 to about \$3.4 million at June 30, 2006, which was an improvement over the amount originally budgeted by about \$500,000.
- For the fifth year, the food service fund generated more revenues than expenditures, netting a profit of \$28,438.
- During the 2005-06 fiscal year the District repaid \$1,573,025 of principal from its long-term debt while incurring no new debt.
- The District achieved adequate yearly progress at all levels again in 2005-06 and all buildings received an Accreditation grade of either A or B.

MANAGEMENT'S DISCUSSION AND ANALYSIS

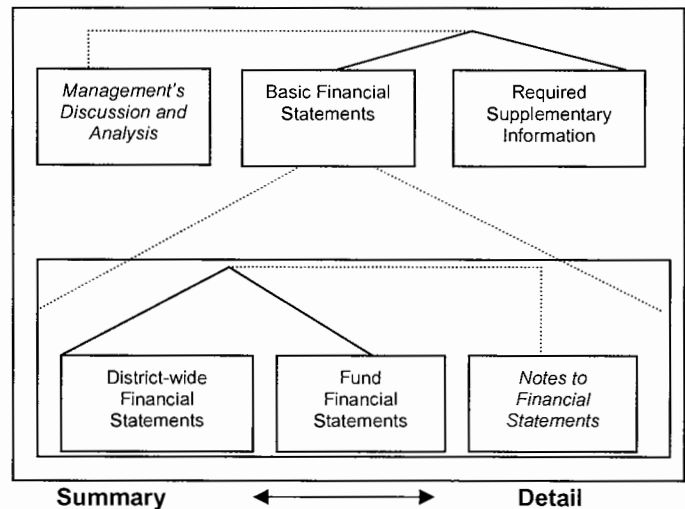
June 30, 2006

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

Figure A-1
Organization of Mason Public School's
Annual Financial Report



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Mason Public Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> * Statement of net assets * Statement of activities 	<ul style="list-style-type: none"> * Balance sheet * Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> * Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, MPS's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities as well as the quality of the education provided and the safety of the school.

In the district-wide financial statements, the District's activities:

- *Governmental activities* - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes, State aid foundation, and State and Federal grants finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- *Governmental funds* - Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explains the relationship (or differences) between them.
- *Fiduciary funds* - The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Mason Public Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's net assets decreased slightly from the previous year to \$18,131,280. The District's financial position is the product of many factors. While student membership declined, the District had made budget reductions in anticipation of the decrease in students. The tables below show the District's net assets as of June 30, 2005 and June 30, 2006 as well as the change in net assets for each year.

Table A-3			
Mason Public School's Net Assets			
	2005	2006	
Current and other assets	\$ 17,875,903	\$ 9,387,416	
Capital assets	36,202,347	43,165,589	
Total assets	54,078,250	52,553,005	
Current liabilities	4,812,386	5,017,018	
Long-term debt outstanding	31,109,378	29,404,707	
Total liabilities	35,921,764	34,421,725	
Net assets			
Invested in capital assets, net of related debt	4,439,617	12,975,884	
Restricted	10,175,402	2,317,367	
Unrestricted	3,541,467	2,838,029	
Total net assets	\$ 18,156,486	\$ 18,131,280	

Table A-4			
Changes in Mason Public School's Net Assets			
	2005	2006	
Revenues			
Program revenues			
Charges for services	\$ 1,494,925	\$ 1,511,434	
Operating and Capital grants	2,189,784	2,326,266	
General revenues			
Property taxes	5,437,137	5,627,026	
State aid - unrestricted	17,772,011	18,096,302	
Other	1,878,458	2,272,023	
Total revenues	28,772,315	29,833,051	
Expenses			
Instruction	13,864,201	14,714,520	
Support services	9,150,953	9,711,832	
Community services	297,056	308,019	
Food services	1,116,764	1,216,149	
Athletics	740,148	737,906	
Interest on long-term debt	1,318,304	1,377,723	
Unallocated depreciation	1,759,330	1,792,108	
Total expenses	28,246,756	29,858,257	
Change in net assets	\$ 525,559	\$ (25,206)	

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

District Governmental Activities

The District's positive financial status is a result of the following actions:

- Several years ago, the Board of Education established the goal of maintaining 12% of expenditures as the District's general fund fund balance.
- The District implemented a capital projects fund to address on-going facility maintenance and repair needs of the District on a proactive basis.
- The District's employees have been part of a total compensation method for determining wage and benefit packages. This has allowed the employees and administration to understand the various components to their compensation and work together to structure affordable packages.
- The District has consistently evaluated the student and program needs compared to the available revenues and made budget reductions to balance the budget.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The strong financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported *combined* fund balances of \$6,370,834.

The District's major governmental funds had less revenues than expenditures in 2006, thereby contributing to the decrease in total fund balance. The reductions were an intentional use of fund balance either to support existing programs or to complete the bond construction project. Three (3) of the seven (7) nonmajor funds ran a current-year deficit. The Special Revenue fund that records the athletic program had expenditures that were \$11,438 above revenues because some unused resources from previous years were used this year to finance expenditures. The Capital Projects funds incurred deficits as planned projects previously funded were completed. The Food Service fund recorded a net profit of \$28,438 for the year.

General Fund Budgetary Highlights

The District revised the annual operating budget in January 2006 to adjust for student counts, staff changes, and contract settlements and again in June 2006 to reflect the adjustments in expenditures throughout the year and the increase in funding from the Intermediate School District.

While the District's final budget for the General Fund projected that expenditures would exceed revenues by \$850,832, the actual results for the year was \$169,413 better ending in a current-year deficit of \$681,419. The difference is primarily a result of revenue changes in three areas. The District received an additional \$77,277 in special education funds from the Intermediate School District due to year-end adjustments at the county level. The District also received \$41,275 more under the IDEA grant in June 2006. The District did not anticipate receiving these funds since the amount was above the original grant award. The other significant change from the budget was the \$22,343 more in property tax revenue and State Aid Foundation.

Overall the change from the original Board adopted 2005-06 budget to year-end actual amounted to revenues that were \$757,370 (3.0%) and expenditures that were \$287,496 (1.1%) greater than the original budget. The significant changes in revenue were additional funds from Ingham Intermediate School District (\$289,254), Universal Service Funds (\$41,643), IDEA grant funds (\$54,171) and State Aid Foundation due to the increase in pupils over projections (\$307,550).

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The significant changes in expenditures include off schedule payments to employees as part of contract settlements due to additional students (\$45,802), increased cost of insurance benefits after original budget was approved (\$73,133), additional substitute teachers due to maternity and other leaves (\$43,260), State mandated fingerprinting and background check requirements (\$12,803), increased price of bus fuel (\$37,138), and increase in General Fund subsidy to Athletics Fund due to lost revenue related to bond construction on fields (\$38,010).

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

By the end of 2006, the District had invested over \$43 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audiovisual equipment, machinery and transportation equipment. This amount represents a net increase of just under \$7 million, or 19.2 percent, from last year. This increase is directly related to the construction in progress from the 2004 Bond project. (More detailed information about capital assets can be found in Note C to the financial statements.) Total depreciation expense for the year was approximately \$1.8 million.

Table A-5		
Mason Public School's Capital Assets		
<i>(in millions)</i>		
	<u>2006</u>	<u>2005</u>
Land	\$ 0.2	\$ 0.2
Buildings and additions	41.9	41.6
Equipment and furniture	12.0	11.7
Transportation equipment	1.7	1.6
Other capital equipment	0.8	0.8
Construction in progress	10.0	2.0
Subtotal	66.6	57.9
Accumulated depreciation	(23.4)	(21.7)
Net capital assets	<u>\$ 43.2</u>	<u>\$ 36.2</u>

The District's fiscal year 2007 budget anticipates spending approximately \$500,000 for capital needs from the general fund and the capital projects fund. The capital needs to be addressed include roof replacements, parking lot and playground repaving, two new buses, an additional high school cafeteria serving line due to closed campus, and other equipment needs across the District. The District also intends to complete the bond construction, which will amount to an additional \$1.6 million in capital assets.

Long-term Debt

At year-end the District had \$31,132,875 million in general obligation bonds and other long-term debt outstanding - a decrease of 5.0 percent from last year. (More detailed information about the District's long-term liabilities is presented in Note D to the financial statements.)

The District paid \$1,573,025 in principal payments during 2005-06 while incurring no new debt.

Table A-6		
MPS's Outstanding Long-Term Debt		
<i>(in millions of dollars)</i>		
	<u>2006</u>	<u>2005</u>
General obligation debts		
(financed with property taxes)	\$ 29.6	\$ 31.1
Other	1.5	1.7
Total	<u>\$ 31.1</u>	<u>\$ 32.8</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- The 2006-2007 State School Aid Act will increase the foundation allowance by \$210 per pupil. The District will also receive an equity payment of approximately \$23 per pupil for the 2006-07 year. The 2006-07 budget is based on the foundation allowance increasing \$225 per pupil.
- Student enrollment is budgeted to decline slightly in the fall 2006. The District graduated 243 seniors in June 2006, while the anticipated incoming kindergarten class is budgeted to be 182 students. The District budgeted for 40 additional students across the other grade levels. Enrollment figures are projected to decline over the next several years if the kindergarten classes continue to average 180 to 190 students.
- The District has several new subdivisions started within its boundaries. The District is monitoring the developments and is hopeful that the new students residing in these developments will offset the decrease in membership that the District has seen over the past few years.
- All labor contracts are open for negotiations for their 2006-07 economic packages. Collaborative negotiations are on going for all labor groups and contracts will be settled soon within the total compensation parameters.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Kelly Corbett, the Executive Director of Finance, Mason Public Schools, 118 West Oak Street, Mason, Michigan 48854.

BASIC FINANCIAL STATEMENTS

Mason Public Schools

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 3,182,192
Investments	2,496,586
Accounts receivable	23,289
Due from other governmental units	3,619,681
Inventories	23,407
Prepays	42,261
Total current assets	9,387,416
Noncurrent assets	
Capital assets not being depreciated	10,268,137
Capital assets, net of accumulated depreciation	32,897,452
Total noncurrent assets	43,165,589
TOTAL ASSETS	52,553,005
LIABILITIES	
Current liabilities	
Accounts payable	1,057,725
Accrued payroll	1,101,399
Other accrued liabilities	700,858
Due to other governmental units	118,837
Accrued interest payable	222,235
Deferred revenue	37,763
Current portion of accrued severance pay	90,000
Current portion of long-term debt	1,688,201
Total current liabilities	5,017,018
Noncurrent liabilities	
Noncurrent portion of accrued interest payable	50,033
Accrued severance pay	853,170
Noncurrent portion of long-term debt	28,501,504
Total noncurrent liabilities	29,404,707
TOTAL LIABILITIES	34,421,725
NET ASSETS	
Invested in capital assets, net of related debt	12,975,884
Restricted for debt service	627,704
Restricted for capital projects	1,689,663
Unrestricted	2,838,029
TOTAL NET ASSETS	\$ 18,131,280

See accompanying notes to financial statements.

Mason Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Governmental activities Function/Program	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Capital Grants	
Instruction	\$ 14,714,520	\$ 160,724	\$ 1,902,801	\$ 90,364	\$ (12,560,631)
Supporting services	9,724,566	9,971	-	-	(9,714,595)
Community services	308,019	246,243	-	-	(61,776)
Food Service	1,216,149	908,157	333,101	-	25,109
Athletics	737,906	186,339	-	-	(551,567)
Interest and costs on long-term debt	1,364,989	-	-	-	(1,364,989)
Unallocated depreciation	1,792,108	-	-	-	(1,792,108)
TOTAL	\$ 29,858,257	\$ 1,511,434	\$ 2,235,902	\$ 90,364	(26,020,557)
General revenues					
Property taxes levied for general purposes					2,956,146
Property taxes levied for debt service					2,670,880
State school aid - unrestricted					18,096,302
Investment earnings					325,117
Special education county allocation					1,937,012
Miscellaneous					9,894
TOTAL GENERAL REVENUES					25,995,351
CHANGE IN NET ASSETS					(25,206)
Net assets, beginning of year					18,156,486
Net assets, end of year					\$ 18,131,280

See accompanying notes to financial statements.

Mason Public Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	2004 Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,790,579	\$ 43,463	\$ 1,348,150	\$ 3,182,192
Investments	-	2,496,586	-	2,496,586
Accounts receivable	7,932	14,271	1,086	23,289
Due from other funds	435	100	-	535
Due from other governmental units	3,609,693	-	9,988	3,619,681
Inventories	6,602	-	16,805	23,407
Prepays	42,261	-	-	42,261
TOTAL ASSETS	\$ 5,457,502	\$ 2,554,420	\$ 1,376,029	\$ 9,387,951
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 147,706	\$ 904,620	\$ 5,399	\$ 1,057,725
Accrued payroll	1,092,438	-	8,961	1,101,399
Other accrued liabilities	695,108	-	5,750	700,858
Due to other funds	100	-	435	535
Due to other governmental units	118,837	-	-	118,837
Deferred revenue	30,038	-	7,725	37,763
TOTAL LIABILITIES	2,084,227	904,620	28,270	3,017,117
FUND BALANCE				
Reserved for				
Inventories and prepaids	48,863	-	16,805	65,668
Debt service	-	-	899,972	899,972
Unreserved				
Designated for				
Debt service	222,981	-	-	222,981
Capital projects	-	1,649,800	349,669	1,999,469
Subsequent year's expenditures	324,020	-	14,837	338,857
Undesignated, reported in				
General fund	2,777,411	-	-	2,777,411
Special revenue funds	-	-	66,476	66,476
TOTAL FUND BALANCE	3,373,275	1,649,800	1,347,759	6,370,834
TOTAL LIABILITIES AND FUND BALANCE	\$ 5,457,502	\$ 2,554,420	\$ 1,376,029	\$ 9,387,951

See accompanying notes to financial statements.

Mason Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental funds \$ 6,370,834

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	66,628,126	
Accumulated depreciation is	<u>(23,462,537)</u>	
		43,165,589

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and loans payable	(30,189,705)	
Accrued interest payable	(272,268)	
Severance pay	<u>(943,170)</u>	
		<u>(31,405,143)</u>

Net assets of governmental activities \$ 18,131,280

See accompanying notes to financial statements.

Mason Public Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General	2004 Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 3,508,099	\$ 207,559	\$ 3,818,748	\$ 7,534,406
State sources	19,291,733	-	95,839	19,387,572
Federal sources	668,586	-	280,876	949,462
OTHER FINANCING SOURCES				
Transfers from other funds	-	-	884,214	884,214
County special education allocation	1,937,012	-	-	1,937,012
Payments from other districts	18,864	-	-	18,864
Other transactions	5,735	-	-	5,735
TOTAL REVENUES AND OTHER FINANCING SOURCES	25,430,029	207,559	5,079,677	30,717,265
EXPENDITURES				
Current				
Instruction	14,788,427	-	-	14,788,427
Supporting services	9,724,566	-	-	9,724,566
Community services	308,019	-	-	308,019
Food service	-	-	1,216,149	1,216,149
Athletics	-	-	737,906	737,906
Debt service	87,962	-	2,858,592	2,946,554
Capital outlay	-	8,034,897	394,789	8,429,686
OTHER FINANCING USES				
Transfers to other funds	884,214	-	-	884,214
Payments to other districts	318,260	-	-	318,260
TOTAL EXPENDITURES AND OTHER FINANCING USES	26,111,448	8,034,897	5,207,436	39,353,781
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(681,419)	(7,827,338)	(127,759)	(8,636,516)
Fund balances, beginning of year	4,054,694	9,477,138	1,475,518	15,007,350
Fund balances, end of year	<u>\$ 3,373,275</u>	<u>\$ 1,649,800</u>	<u>\$ 1,347,759</u>	<u>\$ 6,370,834</u>

See accompanying notes to financial statements.

Mason Public Schools

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2006

Net change in fund balances - total governmental funds **\$ (8,636,516)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	8,755,350	
Depreciation expense		<u>(1,792,108)</u>	
Excess of capital outlay over depreciation expense			6,963,242

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Debt principal retirement	1,573,025
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	8,540		
Decrease in accrued severance pay		<u>66,503</u>	
			<u>75,043</u>

Change in net assets of governmental activities **\$ (25,206)**

See accompanying notes to financial statements.

Mason Public Schools

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash	\$ 25,425	\$ 271,711
Investments	20,000	-
TOTAL ASSETS	<u>\$ 45,425</u>	<u>\$ 271,711</u>
LIABILITIES		
Accounts payable	\$ -	\$ 15,363
Accrued other liabilities	-	1,240
Due to individuals and agencies	-	255,108
TOTAL LIABILITIES	-0-	<u>\$ 271,711</u>
NET ASSETS		
Held in trust for private purposes	<u>\$ 45,425</u>	

See accompanying notes to financial statements.

Mason Public Schools

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2006

	Private Purpose Trust Fund
ADDITIONS	
Investment earnings	\$ 1,634
DEDUCTIONS	
Scholarships awarded	<u>6,353</u>
CHANGE IN NET ASSETS	(4,719)
Net assets - beginning of year	<u>50,144</u>
Net assets - end of year	<u><u>\$ 45,425</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Mason Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Mason Public Schools. The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.
- b. 2004 Capital Projects - The 2004 Capital Project Fund is used to account for financial resources used to acquire capital acquisitions related to the 2004 Refunding and General Obligation Bond proceeds.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for the General fund and all Special Revenue funds.
- g. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplementary appropriations were made during the year with the last approved June 12, 2006.

5. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, and money market accounts, pooled investment funds, and imprest cash with an original maturity of 90 days or less. Cash equivalents are recorded at market value.

Investments consist of certificates of deposit, U.S. Government Securities, and commercial paper with average maturities of greater than 90 days. Investments are recorded at market value.

6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Service Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve in the fund financial statements which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2006 to be paid in July and August 2006. Of the total amount of \$3,619,681 due from other governmental units, \$3,531,445 consists of State Aid and the remaining \$88,236 is from other governmental grants.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**9. Capital Assets**

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	20 - 50 years
Equipment and furniture	5 - 20 years
Vehicles	8 years
Other capital equipment	10 - 40 years

The District has no assets that would be classified as infrastructure assets.

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

11. Deferred Revenues

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred. Other monies collected in advance, such as summer school, community education programs, summer school lunch, recreational programs, and industrial facilities taxes are also deferred.

12. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

13. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Property Taxes - continued

The District levies taxes of \$17.9856 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$4.70 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

14. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the average of pupil membership counts taken in September 2005 and February 2005. The average calculation was weighted 75% for the September 2005 count and 25% for the February 2005 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

15. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

16. County Special Education Revenue Allocation

The millage was collected by Ingham Intermediate School District (IISD) and the payments to the District were based on the most recent IISD budget at the time of allocation of excess revenues, after all IISD costs had been reimbursed. The allocation is paid pro rata based upon the K-12 pupil enrollment, including Special Education students enrolled at IISD, of the District compared to the total County wide enrollment. The K-12 enrollment for the District is defined as the blended official count for the State foundation grant.

17. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

18. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

19. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, the carrying amount of the District's deposits was \$1,585,711 and the bank balance was \$2,116,427 of which \$205,295 was covered by Federal depository insurance. The balance of \$1,911,132 was uninsured and uncollateralized.

Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Investments

As of June 30, 2006, the carrying amounts and market values for each type of investment as reported in the cash, cash equivalents, and investments captions on the combined balance sheet are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uninsured and unregistered for which the securities are held by the District's agent in the District's name -			
Government National Mortgage Association	\$ 29	\$ 29	13.5 months
MLAFP - Fixed Income portfolio - Commercial Paper	2,496,586	2,496,586	142 days
Uncategorized pooled investment funds			
MLAFP - Cash Management Funds	43,463	43,463	<12 months
Automated Cash Management Trust II	27,157	27,157	31 days
MBIA - Michigan Class	<u>1,842,039</u>	<u>1,842,039</u>	29 days
	<u>\$ 4,409,274</u>	<u>\$ 4,409,274</u>	

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the District's investments in the uncategorized pooled investments were rated AAA by Standard and Poor's, except for the MBIA - Michigan Class which is not rated.

Interest rate risk

The District has not adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The District has not adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District has not adopted a policy that indicates how the District will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

As of June 30, 2006, the District's deposits and investments were reported in the financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,182,192	\$ 297,136	\$ 3,479,328
Investments	<u>2,496,586</u>	<u>20,000</u>	<u>2,516,586</u>
	<u>\$ 5,678,778</u>	<u>\$ 317,136</u>	<u>\$ 5,995,914</u>

The District had \$929 of cash on hand.

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents, and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 175,551	\$ -	\$ -	\$ 175,551
Construction in progress	<u>2,057,689</u>	<u>8,034,897</u>	<u>-</u>	<u>10,092,586</u>
Total capital assets not being depreciated	2,233,240	8,034,897	-0-	10,268,137
Capital assets being depreciated				
Buildings and additions	41,597,469	269,725	-	41,867,194
Equipment and furniture	11,724,167	274,202	(12,879)	11,985,490
Vehicles	1,572,229	168,759	(43,396)	1,697,592
Other capital equipment	<u>801,946</u>	<u>7,767</u>	<u>-</u>	<u>809,713</u>
Subtotal capital assets being depreciated	55,695,811	720,453	(56,275)	56,359,989
Less accumulated depreciation for:				
Buildings and additions	(13,859,640)	(863,545)	-	(14,723,185)
Equipment and furniture	(6,144,905)	(770,589)	12,879	(6,902,615)
Vehicles	(1,064,162)	(143,748)	43,396	(1,164,514)
Other capital equipment	<u>(657,997)</u>	<u>(14,226)</u>	<u>-</u>	<u>(672,223)</u>
Subtotal	<u>(21,726,704)</u>	<u>(1,792,108)</u>	<u>56,275</u>	<u>(23,462,537)</u>
Net capital assets being depreciated	<u>33,969,107</u>	<u>(1,071,655)</u>	<u>-0-</u>	<u>32,897,452</u>
Capital assets, net	<u>\$ 36,202,347</u>	<u>\$ 6,963,242</u>	<u>\$ -0-</u>	<u>\$ 43,165,589</u>

Total depreciation expense of \$1,792,108 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
1998 Durant Resolution Bonds	\$ 396,787	\$ -	30,063	\$ 366,724	\$ 31,487
Installment loan - 2002	21,428	-	21,428	-0-	-
Capital lease	160,087	-	29,554	130,533	29,554
Installment loan - 2005	129,428	-	36,980	92,448	36,980
2004 Refunding and General Obligation Bonds	29,555,000	-	1,330,000	28,225,000	1,460,000
2004 School Improvement Bonds	1,500,000	-	125,000	1,375,000	130,000
Severance pay	1,009,673	-	66,503	943,170	90,000
	<u>\$32,772,403</u>	<u>\$ -0-</u>	<u>\$ 1,639,528</u>	<u>\$31,132,875</u>	<u>\$ 1,778,201</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Advanced Refunding - Prior

The District defeased the 1995 School Building and Site General Obligation Bonds, which are due and payable May 1, 2006 through May 1, 2021. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The District issued 2004 Refunding and General Obligation Bonds in the amount of \$29,555,000 to fund escrow amounts, pay the cost of issuance of the refunding bonds, and to pay the remaining balances of the 1995 School Building and Site General Obligation Bonds. Accordingly, the trust account assets and liabilities for the defeased bond are not included in the District's financial statements. At June 30, 2006, bonds due and payable through May 1, 2021 for 1995 School Building and Site General Obligation Bonds in the amount of \$18,075,000 are considered defeased.

General Obligation Bonds - The District has issued bonds to finance the acquisition, new construction, and remodeling of existing school facilities. The following summarizes significant details of the bonds payable outstanding at June 30, 2006:

\$1,500,000 School Improvement Bonds dated September 1, 2004, due in annual installments ranging from \$130,000 to \$180,000 through May 1, 2015 with interest ranging from 3.00 to 3.80 percent, payable semi-annually.	\$ 1,375,000
\$29,555,000 Refunding and General Obligation Bonds dated August 3, 2004, due in annual installments ranging from \$750,000 to \$2,000,000 through May 1, 2024 with interest ranging from 3.00 to 5.25 percent, payable semi-annually.	<u>28,225,000</u>
	<u>\$ 29,600,000</u>

Resolution Bonds

\$621,081 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$30,063 to \$146,734, with interest of 4.7615353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. The next payment will be paid on May 15, 2007, on a schedule specified by the State of Michigan.	<u>\$ 366,724</u>
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Mason Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

Installment Loan

\$147,918 Installment Purchase Agreement dated July 27, 2004, due in semi-annual installments of \$18,490 through July 22, 2008 with interest at 3.59 percent, payable semi-annually.

\$ 92,448

Capital Lease

The District has entered into a lease purchase agreement, to purchase equipment with a cost of \$206,881, which qualifies as a capital lease for accounting purposes (title transfers to District) and therefore has been recorded at the present value of future minimum lease payments as of the date of inception. The following are additional details regarding the lease.

\$206,881 Technology Infrastructure capital lease payable dated October 22, 2003, due in monthly installments of \$2,913 through December 11, 2010 with interest of 4.90 percent, payable monthly.

\$ 130,533

Annual Requirements for Bonded Debt, Installment Loans, and Capital Lease

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

Year Ending June 30,	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>		<u>Installment Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 31,487	\$ 12,120	\$ 1,590,000	\$ 1,322,086	\$ 36,980	\$ 2,987
2008	32,994	10,621	1,645,000	1,259,784	36,979	1,659
2009	146,734	59,083	1,695,000	1,210,436	18,489	332
2010	36,209	7,404	1,720,000	1,155,557	-	-
2011	37,934	5,680	1,775,000	1,095,938	-	-
2012-2016	81,366	5,857	9,350,000	4,369,237	-	-
2017-2021	-	-	9,575,000	2,065,250	-	-
2022-2024	-	-	2,250,000	225,000	-	-
	<u>\$ 366,724</u>	<u>\$ 100,765</u>	<u>\$29,600,000</u>	<u>\$12,703,288</u>	<u>\$ 92,448</u>	<u>\$ 4,978</u>

Capital Lease

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2007	\$ 29,554	\$ 5,400
2008	29,554	5,400
2009	29,554	5,400
2010	29,554	5,400
2011	12,317	2,251
	<u>\$ 130,533</u>	<u>\$ 23,851</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT - CONTINUED**Severance Pay**

In recognition of services to the District, a severance payment is made to eligible employees with at least five (5) or ten (10) years of service according to their respective employment contracts.

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2006, which has been recorded in the District-wide financial statements, is as follows:

Severance pay	\$ 876,145
Payroll taxes	<u>67,025</u>
	<u>\$ 943,170</u>

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2006 are as follows:

Due from Nonmajor governmental funds to:	
General Fund	<u>\$ 435</u>
Due from General Fund to:	
2004 Capital Projects Fund	<u>\$ 100</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:	
General Fund	<u>\$ 884,214</u>

NOTE G: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2005, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2006 was \$16,416,476 of which \$11,795,691 was for members who have elected the MIP option; the District's total payroll was \$16,875,449.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service, and performed service credit in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2005 to September 30, 2005, the District was required by State statute to contribute 14.87% of covered compensation for all wages to the Plan. For the period of October 1, 2005 to June 30, 2006 the District was required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2006	\$ 460,370	\$ 2,640,732	\$ 3,101,102
2005	423,326	2,225,683	2,649,009
2004	403,506	1,992,710	2,396,216

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2006	3.9 %	16.1 %
2005	4.0	14.4
2004	4.0	13.0

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2006:

General Fund	
Reserved for inventories and prepaids	\$ 48,863
Nonmajor governmental funds	
Reserved for inventories	16,805
Reserved for debt service	<u>899,972</u>
	<u>\$ 916,777</u>

The following are the fund balance designations as of June 30, 2006:

Nonmajor governmental funds	
Designated for capital projects	\$ 349,669
Designated for subsequent year's expenditures	14,837
2004 Capital Project Fund	
Designated for capital projects	1,649,800
General Fund	
Designated for debt service	222,981
Designated for subsequent year's expenditures	<u>324,020</u>
	<u>\$ 2,561,307</u>

NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown in the district-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the net asset restrictions as of June 30, 2006:

Governmental activities	
Restricted for debt service	<u>\$ 627,704</u>
Restricted for capital projects	<u>\$ 1,689,663</u>

NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the District's budgeted expenditures in the General Fund has been adopted and shown at the functional classification level and at the fund level for the Special Revenue Funds.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

During the year ended June 30, 2006, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Basic programs	\$12,086,150	\$12,104,919	\$ 18,769
Operations and maintenance	2,644,499	2,648,364	3,865
Transportation	1,195,511	1,205,868	10,357
Community recreation	33,666	37,926	4,260
Transfers to other funds	882,963	884,214	1,251
Payments to other districts	295,000	318,260	23,260
Athletic Fund	714,315	737,906	23,591

NOTE K: FLEXIBLE BENEFITS PLAN

In May 2002, the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all employees, permits them to receive cash in lieu of medical benefits. The Plan provides employees with the opportunity to choose among benefits consisting of cash or benefits.

The Plan is administered by a third party administrator.

NOTE L: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, fleet, liability, in-land marine, equipment breakdown, builder's risk, employee dishonesty, crime, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. The District has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The District has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE M: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Mason Public Schools, a nonplaintiff District, was awarded \$1,242,162 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE M: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT - CONTINUED

- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE N: CONTRACT COMMITMENTS

The District has entered into a contract related to the acquisition, construction, and remodeling of various school building projects that were not completed at June 30, 2006. The total contractual commitment outstanding at June 30, 2006 totaled \$1,517,540. The District's remaining bond proceeds (i.e., fund balance) along with future anticipated investment earnings are expected to be sufficient to cover these commitments.

NOTE O: BONDED CONSTRUCTION FUNDS

The Capital Project Funds of the District include the capital projects activities funded in part by the 2005 Refunding and General Obligation Bonds, and the 2005 School Improvement Bonds. The remaining funding for the activities recorded within the various Capital Project Funds is funded by local appropriations from the General Fund, and other local dollars (i.e., interest, etc.) For these projects recorded within the Capital Project Funds, the District has complied with the applicable provisions of Section 1351 (1) of the Revised School Code in prior and current years.

REQUIRED SUPPLEMENTARY INFORMATION

Mason Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 3,382,075	\$ 3,517,913	\$ 3,508,099	\$ (9,814)
State sources	19,036,185	19,247,902	19,291,733	43,831
Federal sources	588,641	624,826	668,586	43,760
	23,006,901	23,390,641	23,468,418	77,777
OTHER FINANCING SOURCES				
County special education allocation	1,647,758	1,859,735	1,937,012	77,277
Payments from other districts	10,000	11,777	18,864	7,087
Other transactions	8,000	8,000	5,735	(2,265)
TOTAL REVENUES AND OTHER FINANCING SOURCES	24,672,659	25,270,153	25,430,029	159,876
EXPENDITURES				
Current				
Instruction				
Basic programs	12,230,669	12,086,150	12,104,919	(18,769)
Added needs	2,594,321	2,696,513	2,683,508	13,005
Total instruction	14,824,990	14,782,663	14,788,427	(5,764)
Supporting services				
Student services	1,801,505	1,881,161	1,870,853	10,308
Instructional staff	962,322	964,003	963,063	940
General administration	323,725	305,497	299,424	6,073
School administration	1,551,862	1,623,230	1,596,428	26,802
Business and fiscal services	318,769	324,695	323,220	1,475
Operations and maintenance	2,650,248	2,644,499	2,648,364	(3,865)
Transportation	1,100,928	1,195,511	1,205,868	(10,357)
Other supporting services	799,823	818,557	817,346	1,211
Total supporting services	9,509,182	9,757,153	9,724,566	32,587
Community services				
Community recreation	31,850	33,666	37,926	(4,260)
Childcare	159,188	131,045	123,974	7,071
Community services office	137,204	150,533	146,119	4,414
Total community services	328,242	315,244	308,019	7,225

Mason Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
EXPENDITURES - CONTINUED				
Debt service	<u>\$ 62,415</u>	<u>\$ 87,962</u>	<u>\$ 87,962</u>	<u>\$ -0-</u>
TOTAL EXPENDITURES	<u>24,724,829</u>	<u>24,943,022</u>	<u>24,908,974</u>	<u>34,048</u>
OTHER FINANCING USES				
Transfers to other funds	<u>824,123</u>	<u>882,963</u>	<u>884,214</u>	<u>(1,251)</u>
Payments to other districts	<u>275,000</u>	<u>295,000</u>	<u>318,260</u>	<u>(23,260)</u>
TOTAL OTHER FINANCING USES	<u>1,099,123</u>	<u>1,177,963</u>	<u>1,202,474</u>	<u>(24,511)</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>25,823,952</u>	<u>26,120,985</u>	<u>26,111,448</u>	<u>9,537</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>(1,151,293)</u>	<u>(850,832)</u>	<u>(681,419)</u>	<u>169,413</u>
Fund balance, beginning of year	<u>4,054,694</u>	<u>4,054,694</u>	<u>4,054,694</u>	<u>-0-</u>
Fund balance, end of year	<u><u>\$ 2,903,401</u></u>	<u><u>\$ 3,203,862</u></u>	<u><u>\$ 3,373,275</u></u>	<u><u>\$ 169,413</u></u>

OTHER SUPPLEMENTARY INFORMATION

Mason Public Schools
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
June 30, 2006

	Special Revenue Funds		Debt Service	
	Food Service	Athletics	2004 Debt Retirement	2004 School Improvement
ASSETS				
Cash and cash equivalents	\$ 65,161	\$ 30,292	\$ 899,222	\$ 31
Accounts receivable	-	-	1,086	-
Due from other governmental units	9,988	-	-	-
Inventories	16,805	-	-	-
TOTAL ASSETS	\$ 91,954	\$ 30,292	\$ 900,308	\$ 31
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ 1,620	\$ 4	\$ -
Accrued payroll	2,156	6,805	-	-
Other accrued liabilities	1,354	4,396	-	-
Due to other funds	72	-	363	-
Deferred revenue	7,725	-	-	-
TOTAL LIABILITIES	11,307	12,821	367	-0-
FUND BALANCES				
Reserved for				
Inventories	16,805	-	-	-
Debt service	-	-	899,941	31
Unreserved				
Designated for				
Capital projects	-	-	-	-
Subsequent year's expenditures	13,725	1,112	-	-
Undesignated, reported in				
Special revenue funds	50,117	16,359	-	-
TOTAL FUND BALANCES	80,647	17,471	899,941	31
TOTAL LIABILITIES AND FUND BALANCES	\$ 91,954	\$ 30,292	\$ 900,308	\$ 31

Funds		Capital Project Funds		
Durant Debt		Capital Project	2004 School Improvement	Total
\$	-	\$ 313,581	\$ 39,863	\$ 1,348,150
	-	-	-	1,086
	-	-	-	9,988
	-	-	-	16,805
<u>\$</u>	<u>-0-</u>	<u>\$ 313,581</u>	<u>\$ 39,863</u>	<u>\$ 1,376,029</u>
\$	-	\$ 3,775	\$ -	\$ 5,399
	-	-	-	8,961
	-	-	-	5,750
	-	-	-	435
	-	-	-	7,725
	-0-	3,775	-0-	28,270
	-	-	-	16,805
	-	-	-	899,972
	-	309,806	39,863	349,669
	-	-	-	14,837
	-	-	-	66,476
	-0-	309,806	39,863	1,347,759
<u>\$</u>	<u>-0-</u>	<u>\$ 313,581</u>	<u>\$ 39,863</u>	<u>\$ 1,376,029</u>

Mason Public Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES

Year ended June 30, 2006

	<u>Special Revenue Funds</u>		<u>Debt Service</u>	
	<u>Food Service</u>	<u>Athletics</u>	<u>2004 Debt Retirement</u>	<u>2004 School Improvement</u>
REVENUES				
Local sources	\$ 909,115	\$ 193,458	\$ 2,708,984	\$ 31
State sources	52,225	-	-	-
Federal sources	280,876	-	-	-
OTHER FINANCING SOURCES				
Transfers from other funds	<u>2,371</u>	<u>533,010</u>	<u>-</u>	<u>174,833</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	1,244,587	726,468	2,708,984	174,864
EXPENDITURES				
Current				
Food service	1,216,149	-	-	-
Athletics	-	737,906	-	-
Debt service	-	-	2,640,140	174,838
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>1,216,149</u>	<u>737,906</u>	<u>2,640,140</u>	<u>174,838</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	28,438	(11,438)	68,844	26
Fund balances, beginning of year	<u>52,209</u>	<u>28,909</u>	<u>831,097</u>	<u>5</u>
Fund balances, end of year	<u>\$ 80,647</u>	<u>\$ 17,471</u>	<u>\$ 899,941</u>	<u>\$ 31</u>

Funds		Capital Project Funds	
Durant Debt	Capital Project	2004 School Improvement	Total
\$ -	\$ 5,267	\$ 1,893	\$ 3,818,748
43,614	-	-	95,839
-	-	-	280,876
-	174,000	-	884,214
43,614	179,267	1,893	5,079,677
-	-	-	1,216,149
-	-	-	737,906
43,614	-	-	2,858,592
-	284,789	110,000	394,789
43,614	284,789	110,000	5,207,436
-0-	(105,522)	(108,107)	(127,759)
-	415,328	147,970	1,475,518
\$ -0-	\$ 309,806	\$ 39,863	\$ 1,347,759

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Mason Public Schools
Mason, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 16, 2006, which collectively comprise the District's basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mason Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mason Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the use of the administration and Board of Education of Mason Public Schools, the Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 16, 2006

Mason Public Schools

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2006

Mason Public Schools

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Mason Public Schools
Mason, Michigan

Compliance

We have audited the compliance of Mason Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major Federal program for the year ended June 30, 2006. Mason Public Schools' major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of Mason Public Schools' management. Our responsibility is to express an opinion on Mason Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Mason Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mason Public Schools' compliance with those requirements.

In our opinion, Mason Public Schools complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ending June 30, 2006.

Internal Control Over Compliance

The management of Mason Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Mason Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mason Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 16, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Mason Public Schools' basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and management of Mason Public Schools, the Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 16, 2006

Mason Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2006

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
Title I	84.010		
2004-05 Regular - Part A		0515300405	\$ 114,076
2005-06 Regular - Part A		0615300506	96,965
			<u>211,041</u>
Title V	84.298		
2005-06		0602500506	1,274
Technology Literacy Challenge Grants	84.318		
2005-06 Ed Tech - Formula Grant		0642900506	1,809
Improving Teacher Quality	84.367		
2004-05 Title IIA		0505200405	85,431
2005-06 Title IIA		0605200506	84,693
			<u>170,124</u>
State Plan Self Review	84.027 (e)(h)	0604405PSR	3,925
Passed Through State Department of Education and Ingham Intermediate School District			
Special Education 94-142			
Flow Through - IDEA	84.027 (e)(h)		
2004-05 Regular		0504500405	374,798
2005-06 Regular		0604500506	419,171
			<u>793,969</u>
Preschool - IDEA	84.173 (e)(h)		
2004-05		0504600405	19,115
2005-06		0604600506	17,359
			<u>36,474</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			1,218,616

<u>(Memo Only)</u> <u>Prior Years'</u> <u>Expenditures</u>	<u>Balance</u> <u>July 1, 2005</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>	<u>Cash</u> <u>Receipts</u> <u>In-Kind</u> <u>Payments</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2006</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>
\$ 114,076	\$ 19,519	\$ 19,519	\$ -	\$ -0-
-	-	96,965	96,965	-0-
114,076	19,519	116,484	96,965	-0-
-	-	1,274	1,274	-0-
-	-	1,809	1,809	-0-
82,471	10,955	13,915	2,960	-0-
-	-	74,679	84,693	10,014
82,471	10,955	88,594	87,653	10,014
-	-	-	3,925	3,925
374,798	104,320	104,320	-	-0-
-	-	370,743	419,171	48,428
374,798	104,320	475,063	419,171	48,428
19,115	7,148	7,148	-	-0-
-	-	16,576	17,359	783
19,115	7,148	23,724	17,359	783
590,460	141,942	706,948	628,156	63,150

Mason Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2006

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education			
School Breakfast Program	10.553 ^(f)		
2004-05		051970	\$ 16,953
2005-06		061970	<u>20,969</u>
			37,922
National School Lunch Program	10.555 ^(f)		
2004-05		051950, 051960	206,594
2005-06		061950, 061960	<u>201,227</u>
			407,821
Child and Adult Care Food Program	10.558		
2005-06		051920	569
2005-06		052010	<u>245</u>
			814
Food Donation	10.550		
Entitlement commodities		33130	19,448
Bonus commodities		33130	<u>2,262</u>
			<u>21,710</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			468,267
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through State Department of Human Services and Ingham Intermediate School District			
Medicaid Assistance Program			
Title XIX			
Outreach			
2005-06	93.778	33130	31,092
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through County of Ingham			
State Domestic Preparedness	97.004	03-6913	<u>9,338</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,727,313</u>

<u>(Memo Only)</u> <u>Prior Years'</u> <u>Expenditures</u>	<u>Balance</u> <u>July 1, 2005</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>	<u>Cash</u> <u>Receipts</u> <u>In-Kind</u> <u>Payments</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2006</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>
\$ 14,526	\$ -	\$ 2,427	\$ 2,427	\$ -0-
-	-	20,969	20,969	-0-
14,526	-0-	23,396	23,396	-0-
172,865	-	33,729	33,729	-0-
-	-	201,227	201,227	-0-
172,865	-0-	234,956	234,956	-0-
-	-	569	569	-0-
-	-	245	245	-0-
-0-	-0-	814	814	-0-
-	-	19,448	19,448 (a)(c)	-0-
-	-	2,262	2,262 (a)(c)	-0-
-0-	-0-	21,710	21,710	-0-
187,391	-0-	280,876	280,876	-0-
-	-	31,092	31,092	-0-
-	-0-	9,338	9,338	-0-
<u>\$ 777,851</u>	<u>\$ 141,942</u>	<u>\$ 1,028,254</u> (d)	<u>\$ 949,462</u> (g)(b)	<u>\$ 63,150</u>

Mason Public Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Mason Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (h) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year revenues for the Food Donation Program are determined based on the 2002/03 guidance provided previously from the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the current payment amounts in the Grants Section Auditor's Report.
- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Agrees to total revenues from Federal sources per financial statements.
- (h) Denotes programs required to be clustered by the United States Department of Education.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Mason Public Schools
Mason, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Mason Public Schools as of and for the year ended June 30, 2006, which collectively comprise the Mason Public Schools' basic financial statements and have issued our report thereon dated August 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mason Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of management, the Board of Education and management of Mason Public Schools, pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 16, 2006

Mason Public Schools

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2006

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. There were no reportable conditions disclosed by the audit of the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts and grants that could have a direct and material affect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings regarding internal controls or compliance related to the major program tested.

The major program tested to cover 25 percent of the total Federal expenditures was the Special Education 94-142 IDEA Flow Through and IDEA Preschool programs (CFDA 84.027 and 84.173) (a U.S. Department of Education cluster). Total Federal expenditures for the year ended June 30, 2006 for the major programs were \$440,455, which is approximately 46 percent of total Federal expenditures. The District was determined to qualify as a low-risk auditee.

The District had one (1) Type A program Special Education 94-142, \$440,455 (a U.S. Department of Education cluster of CFDA 84.027 and 84.173). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Basic Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to the Basic Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Mason Public Schools

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2006

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Basic Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Basic Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.